1976

Initial Report of the Special Legislative Commission to Make In-Depth Study of State Retirement System

#1172

INITIAL REPORT

OF THE

SPECIAL LEGISLATIVE COMMISSION TO MAKE IN-DEPTH STUDY

OF

STATE RETIREMENT SYSTEM

JANUARY, 1976

State of Rhode Island and Providence Plantations

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COMMITTEE ON FINANCE

Special Assistant to the Chairman
for
Personnel and Administration

House of Representatives

TO: HONORABLE MEMBERS OF THE GENERAL ASSEMBLY

FROM: COMMISSION TO MAKE IN-DEPTH STUDY OF STATE RETIREMENT SYSTEM

SUBJECT: INITIAL REPORT

Include herewith are the findings of this Commission in relationship to the financial condition of the State Retirement System. To follow will be a second report having to do with the recommended administrative changes.

This Commission has met faithfully over the past year and has heard from various teacher unions, state employee unions, retired teacher organizations, actuaries, state officials and various other people. We are deeply indebted to all these organizations and people for their in-put.

We would like to especially thank Mr. Raymond Hawksley, General Treasurer, Mr. Joseph Iannelli, Executive Director of the Retirement System, Mr. John Murray and Mr. Clinton Ross of the State Budget Office, Mr. James Carter, State Comptroller, Mr. Ted Carter of the Division of Data Processing and Mr. Peter Boitano of Legislative Research staff, Mr. Patrick Keeley and Mr. William DeNuccio for their cooperation and assistance. A special thanks is due to Mr. Robert I. Bostian of Robert Borah Associates for his fine work and to Mr. A.A. Weinberg, state actuary, for his spirit of cooperation.

Some people will become preoccupied with the figures contained in this report. Even though they are substantial, we believe that the most important aspect of the report is the trend and not the dollar figures. The trend is that our retirement system is accumulating a progressively larger Unfunded Accrued Liability. If we do not take hold of this situation now then this liability will continue to grow by leaps and bounds to a point,in the not to distant future, when we could find the cost of our system become prohibitive from a sound financial point of view.

We feel that if the recommendations outlined in this report and in the report to follow are adhered to, then the system at a point of time in the future will again become financially sound. We want to assure those people who are presently in the system as well as those who are retired that there is no immediate danger of pension benefits not being paid or being reduced.

Respectfully submitted,

Paul E. Hanaway

Paul E. Hanaway
CHAIRMAN

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HISTORY

THE EMPLOYEES' RETIREMENT SYSTEM: PAST AND PRESENT

Origin and Background. The Employees' Retirement System was originally enacted at the 1936 session of the General Assembly to become effective on July 1 of that year (see Chapter 2334 of the Public Laws, 1936). It applied only to state employees at the outset, and those employees who were in service on that date received full pension credit for employment prior to such date if they elected to join the system. However, membership in the system for employees was an optional selection at the beginning, not a mandatory provision.

School teachers in the public school system throughout the state were included in the system on July 1, 1949, also by legislative action (see Chapter 2101, P.L. 1948). And similar treatment was given to teachers, with prior teaching credits, as was given to state employees earlier viz. receiving pension credit for all earlier teaching service.

No further expansion of membership covered by the system occurred until 1960 when the Assembly enacted provisions to include members of their own legislative body. The bill was signed into law March 25, 1960 (see Chapter 20 of the Public Laws, 1960), and was made optional for legislators, not mandatory.

Since 1960, then, the system's membership coverage has remained constant. And it is now mandatory for all members, except legislators and certain elected officials. One further point here should be added for clarification.

Municipal and similarly-employed personnel have been covered by a Municipal Employees' Retirement System since July 1, 1957 but this is completely separate and apart from the Employees' Retirement System now under examination. Confusion arises at times over the relationship of the systems, but except for an administrative and financial convenience in having the systems managed by one body under one roof, the systems are otherwise independent of one another. This means in types of members, conditions, and benefits, and overall financial structure.

Since the establishment of the Employees' Retirement System in 1936, there have been numerous amendments to the law extending benefits, modifying restrictions, and in general upgrading and modernizing retirement provisions. Many of the improvements were the direct result of broad reviews of the system undertaken by legislative and other study groups. Other changes were simply isolated or individual amendments by the Assembly. In any case, for historical perspective, some mention should be made of the major retirement system studies since 1936.

The first of these studies was begun in 1947 by a legislative group "examining the entire structure of the system." It culminated with recommendations to include public school teachers in the system, as well as with other modifications to existing laws. These provisions were enacted by the General Assembly in 1948.

A second legislative study committee was created in 1959 "to investigate the feasibility of (a) thirty-year retirement benefits for employees/teachers regardless of age, and (b) survivors' benefits for teachers." This group reported to the General Assembly in 1961, and its findings relating to teachers' survivors' benefits only were enacted in 1963.

A third legislative study group was formed in 1969 with the general mandate "to study and make recommendations for changes in the present retirement law..." This group reported in early 1970 with numerous and far-reaching recommendations, most of which were enacted into law that same year. The enactments were unquestionably the most extensive changes, including a liberalizing of employee benefits, made in the system since its beginning.

The most recent study was a Task Force Group, so-called, appointed by the Governor in 1973 "to examine the financial feasibility of teachers' retirement at 80% of salary after 30 years service." This group reached beyond its study mandate also, and reported to the Governor in early 1974 essentially "that the system needed more financial stability before any liberalization of benefits were in order."

Basically, this completes the background of major events, revisions and recommendations in our review of the Employees Retirement System. One final note might be to relate that it was the findings of the Governor's Task Force in early 1974, particularly as to the funding status of the system, that led directly to creation of the present legislative commission.

The System Today: Conditions, Benefits and Membership. The Employees' Retirement System currently includes all state employees and public school teachers in the State of Rhode Island with certain minor exceptions specified by law. The system provides a complete schedule of benefits for eligible members and beneficiaries, for service retirement, and for cases of disability or death. In many instances, these benefits supplement federal social security provisions.

The main (but not all-inclusive) features of the system include the following conditions for retirement:

(1) optional at age 60, provided the member has completed 10 years of service;

(2) retirement at age 55 with 30 years of service, or under age 55 with 30 years of service at a reduced allowance;

(3) retirement at any age with 35 years of service, with no reduction in allowance;

(4) compulsory at age 70 with certain exceptions.

These conditions, incidentally, apply to employees and teachers only. There are other conditions/provisions limited to legislator members and correctional department employees.

The principal benefits of the system include:

(1) Monthly pensions for life of member;

(2) Optional pensions for members' beneficiaries;

(3) Ordinary disability (incurred off-the-job);

(4) Accidental disability (incurred while on the-job);

(5) Ordinary death benefits before or after retirement;

(6) Accidental death benefits (due to occupation);

(7) Survivor benefits for teachers;

(8) Cost of living increases for pensioners.

Other conditions for retirement and lesser benefits are also available under exceptions and waivers, but a full examination of the retirement system law would be necessary to determine what they are and when they pertain.

Membership. All employees of the state whose servie is of a regular character must belong to the retirement system, but this does not include employees whose service is of a casual nature. Nor does the compulsory feature extend to certain other categories of employees who are excluded by law or who are extended optional provisions.

Those excluded from the system are employees who enter state service after their sixtieth birthday, judges of the state's courts, and member of the state police. Optional membership is afforded to elected officials of the state and members of the General Assembly. Also, academic and certain administrative personnel of the state colleges and university have an option to join the system or participate in the Teachers' Insurance Annuity Association.

Teachers of the public schools in the cities and towns of Rhode Island are also included as compulsory members of the system. This category includes superintendents, principals, school nurses and certain other public school officials.

The original membership of the system in 1936 included 2,561 state employees; and when the system was expanded in 1949 to include teachers, there were 4,269 new members added to the rolls. By way of comparison, as of June 30th, 1975 there were 15,300 state employees and 11, 191 teachers included as contributing members of the system. Also there were 3,158 state employees and 2,451 teachers listed as retirees, pensioners, or beneficiaries on the same date.

Administration. The management of the Employees' Retirement System is handled by a board of eleven members, consisting of the General Treasurer, the Directors of Administration and Business Regulation, the Commissioner of Education, the Chairman of the Senate and House of Representatives Finance Committees, and representatives of the general public, state employees, school teachers, and municipal employees and employers.

The Board holds regular meetings for the purpose of reviewing the current operations of the system and approving retirement applications of members. The law requires the Board to develop a retirement program for state employees and teachers, and to make an annual report to the General Assembly. The Board is also required to furnish each member with an annual statement of his retirement account.

Day-to-day administrative business of the Board is supervised by an Executive Director, assisted by a staff of administrative, financial, and clerical personnel. At the end of fiscal 1975, there were 16 personnel employed by the Board. Administrative expenses of the staff are provided by direct appropriations of the state, and in the year ending June 30, 1975, the Board spent $247,418 to carry out its responsibilities.

In addition to permanent staff, the Board contracts annually for actuarial services from an independent professional firm. It is the actuary's function to make an annual valuation of the assets and liabilities of the system's funds and to establish the reserve requirements for the accrued and prospective credits under the several benefit schedules.

Funding The System. The system is financed on a three part basis; employee contributions, employers' funds, and investment income. Of the workers share, state employees contribute 5% of salary, and school teachers contribute 6%--the difference resulting from actuarial determination.

While the employee/teacher share is fixed by law, the employers' share of the cost of the system is determined administratively. It is computed as a percentage rate of each year's payroll, based upon the projected requirements for pension and benefit payments after deducting contributions made by the members, and after adjustment for other pertinent factors in the application of actuarial criteria. The latest rates of contribution by the employers, which became effective July 1, 1972, are:

(a) State of Rhode Island: for state employee members................6.5%

(b) State of Rhode Island and Cities and Towns of State for teachers-members (each contributing one-half of the cost)........9%

These percentage rates are applied to the total salaries paid to the members in order to arrive at the employer contributions to the system. And, in accordance with the provisions of law enacted in 1967, projected costs are established every five years. The first of these revised calculations was made prior to July 1, 1972, so as to have any change in rate take effect on that date. Revised calculations will be made again sometime prior to July 1, 1977.

The remaining source of funds to finance the system comes from annual investment earnings. This is the income received from the sizeable investment portfolio that the State Investment Commission has under its control as retirement fund assets.

Other Financial Data. The total assets of the system on June 30, 1975 amounted to $222,497,479. Total revenues for the fiscal year ending on that date from member contributions, employer contributions, investment income and miscellaneous sources amounted to $50,586,674, a gain of more than $6 million over 1974.

Of the $50.6 million income in 1975, it is worth noting that 32% came from employee contributions, 42% came from employers' funds, and the balance of 26% was received through investment earnings.

On the expenditure side of the ledger, $27,788,817 was paid out in fiscal 1975 for pensions, benefits, refunds and other purposes. The excess of revenue over expenditures during the year of $22,797,857 was credited to the system's reserves to provide for future payments.

COMPARISONS

The following comparisons of the unfunded accrued liability to the net payroll, assets and the general long term debt of the state serve as a dramatic example of the worsening condition of the funding of the state retirement system. This was written on the basis of figures supplied by Mr. A.A. Weinberg, state actuary, in July 1975. Mr. Weinberg has revised these figures on December, 1975. Consequently the ratios shown for the fiscal year 75 are not current. However the previous nine (9) fiscal years are on the basis of figures reported by Mr. Weinberg in his annual reports. These figures do show the trends developing even by eliminating the fiscal year 75 data.

The fiscal year 75 figures will be able to be reconciled upon receipt of the completed actuary report expected in the near future.

I. RATIO OF UNFUNDED ACCRUED LIABILITY TO NET PAYROLL

The dramatic rise in the Unfunded Accrued Liability of the Employees' Retirement System of the State of Rhode Island can be systematically plotted. In fiscal year 1965 the System's Unfunded Liability had reached 100.4 million dollars. In the next five fiscal years (1966-1970) the Unfunded Accrued Liability grew at a relatively constant rate until it reached 138.6 million dollars. A great portion of this unfunded increase can be attributed to the fact that the Rhode Island Retirement System is a "partially funded" system.

However, the major increase in the System's Unfunded Accrued Liability can be attributed to one specific source--the totally unfunded benefit package extended to member in 1970. The actuary estimated these benefits to cost approximately 100 million dollars. Consequently, the System's Unfunded Accrued Liability rose markedly. In fact, from fiscal year 1970 to fiscal year 1975 the level grew from 138.6 million dollars to 449.9 million dollars. This frightening growth of 311.3 million dollars in the System's Unfunded Accrued Liability over a period of only five years is a matter of serious concern for all responsible Rhode Islanders. The Unfunded Accrued Liability figure is tied directly to the increased cost of pension benefits currently accruing and the fact that the interest on the Unfunded Accrued Liability is not being paid.

The Unfunded Accrued Liability figure will continue to grow if immediate steps are not taken. For example, the System's actuarial formula assumes a 5 percent annual rate of interest on the Unfunded Accrued Liability. The Unfunded Accrued Liability stands at 450 million dollars; therefore, an increase of 22.5 million dollars in the Unfunded Accrued Liability can be expected in fiscal year 1976 if this interest is not paid. It becomes evident that this unbridled increase will only compound itself and that the Unfunded Accrued Liability will geometrically increase if immediate attention is not given to this problem.

In an effort to pinpoint the areas of primary concern, the Special Legislative Commission charted the relationship of the Unfunded Accrued Liability to the Net Payroll (1965-1974). This ten-year comparison was divided into two distinct areas-- State Employees and Teachers.

A. State Employees. In fiscal year 1965 there was an Unfunded Accrued Liability figure of 32.9 million dollars in relation to a State Employees' Net Payroll of 54.8 million dollars. The ratio of Unfunded Accrued Liability to Net Payroll was .60 to 1.

This Employees' ratio remained relatively constant through fiscal year 1971. In 1971 the Unfunded Accrued Liability was 54.9 million dollars and the Net Payroll was 96.3 million dollars. The ratio of Unfunded Accrued Liability to Net Payroll was .57 to 1.

However, the next three fiscal years showed a dramatic climb. In fiscal year 1974 the Unfunded Accrued Liability was 130.9 million dollars , and the Net Payroll was 123.4 million dollars. The ratio of Unfunded Accrued Liability to Net Payroll was 1.06 to 1.

B. Teachers. In fiscal year 1965 there was an Unfunded Accrued Liability figure of 67.5 million dollars in relation to a Teachers' Net Payroll of 46.7 million dollars. The ratio of Unfunded Accrued Liability to Net Payroll was 1.45 to 1.

The Teachers' ratio showed a marked decline from 1965 to 1971. In fiscal year 1971 the Unfunded Accrued Liability was 117.5 million dollars, and the Net Payroll was 110.4 million dollars. The ratio of Unfunded Accrued Liability to Net Payroll was 1.06 to 1.

However, from fiscal year 1971 to fiscal year 1974, a drastic change took place. The ratio jumped from 1.06 to 1 to a level of 2.01 to 1. The Unfunded Accrued Liability grew to 277.9 million dollars, and the Net Payroll grew to 138.2 million dollars. (See Appendix A)

II. RATIO OF UNFUNDED ACCRUED LIABILITY TO ASSETS

In fiscal year 1965 the ratio of Unfunded Accrued Liability to Assets of the Employees' Retirement System of the State of Rhode Island was 1.34 to 1. The System's total Unfunded Accrued Liability was 100.4 million dollars and the total Assets were 74.8 million dollars.

From fiscal year 1965 through fiscal year 1970, there was an improvement in this ratio. In fiscal year 1970 the ratio had decreased to 1.05 to 1. The System's Unfunded Accrued Liability was 138.6 million dollars, and the total Assets were 131.5 million dollars.

However, there was a marked increase in the ratio in fiscal year 1971. In fiscal year 1971 the ratio increased to 1.18 to 1. The System's Unfunded Accrued Liability was 172.4 million dollars, and the total Assets were 146.6 million dollars. This increased ratio accelerated rapidly. In fiscal year 1974 the ratio had reached 2.05 to 1. The System's total Unfunded Accrued Liability had grown to $408.8 million, and the total Assets were $199.8 million.

In an effort to pinpoint the areas of primary concern, the Special Legislative Commission charted the relationship of the Unfunded Accrued Liability to the System's Assets (1965-1974). This ten-year comparison was divided into <u>two distinct areas</u>-- State Employees and Teachers.

A. <u>State Employees</u>. In fiscal year 1965 there was an Unfunded Accrued Liability figure of $32.9 million in relation to a total Assets figure of $74.8 million. The ratio of Unfunded Accrued Liability to Assets was .44 to 1.

This Employees' ratio generally improved through fiscal year 1970. In 1970 the Unfunded Accrued Liability was $44.0 million and the total Assets were $131.5 million. The ratio of Unfunded Accrued Liability to total Assets was .33 to 1.

However, this ratio grew rapidly in the next few years. In fiscal year 1974 the Unfunded Accrued Liability was $130.9 million, and the total Assets were $199.8 million. The ratio of Unfunded Accrued Liability to total Assets was .66 to 1.

B. Teachers. The Teachers' portion of the Retirement Fund followed a similar pattern. In fiscal year 1965 there was an Unfunded Accrued Liability of $67.5 million in relation to a total Assets figure of $74.8 million. The ratio of Unfunded Accrued Liability to total Assets was .90 to 1.

This Teachers' ratio generally improved through fiscal year 1970. In 1970 the Unfunded Accrued Liability was $94.6 million and the total Assets were $131.5 million. The ratio of Unfunded Accrued Liability to total Assets was .72 to 1.

However, this ratio increased rapidly in the next few years. In fiscal year 1974 the Unfunded Accrued Liability was $277.9 million, and the total Assets were $199.8 million. The ratio of Unfunded Accrued Liability to total Assets was 1.39 to 1. (See Appendix B.)

III. RATIO OF UNFUNDED ACCRUED LIABILITY TO THE STATE OF RHODE ISLAND'S GENERAL LONG-TERM DEBT PAYABLE.

In fiscal year 1965 the Rhode Island Retirement System's ratio of Unfunded Accrued Liability to the State of Rhode Island's Long-Term Debt Payable was .64 to 1. The System's total Unfunded Accrued Liability was $100.4 million, and the State's Long-Term Debt Payable was $157.2 million.

From fiscal year 1965 through fiscal year 1970, there was an improvement in this ratio. In 1970 the ratio had decreased to .55 to 1. The System's Unfunded Accrued Liability was $138.6 million, and the State's total Long-Term Debt Payable was 253.9 million dollars.

However, from 1970 through fiscal year 1975, there has been a dramatic change for the worse. The Unfunded Accrued Liability in fiscal year 1975 stands at $449.9 million, and the total Long-Term Debt Payable is $225.0 million. The ratio of Unfunded Accrued Liability to Long-Term Debt Payable has grown to the dangerous level of 2 to 1. (See Appendix C.)

OVERVIEW NOTE

The Special Legislative Commission has noted that little serious concern has been given to the dramatic growth of the Rhode Island Retirement System's Unfunded Accrued Liability. In recent years it has been evident that the citizens of Rhode Island have become increasingly more aware of financial conditions. They have judiciously chosen what bond referenda were to be passed. They have clearly demonstrated their concern for long-term indebtedness.

Conversely, the State of Rhode Island has been lax concerning its control of the Retirement System. The Commission believes it is only a matter of time before the various private bond rating agencies who, in effect, determine the interest the State will pay on bonds floated, will deem it necessary to include pension liabilities in their considerations of credit ratings.

It is an accepted truism in investment circles that the long-term debt of a governmental body can be equal to the general revenue of one fiscal year and the body can still maintain an adequate credit rating. Obviously, any ratio that exceeds this portion would automatically have a dramatic effect upon the governmental body's credit rating. The Commission seriously questions if the State of Rhode Island's good credit rating can withstand the onslaught of an ever-increasing Retirement System's Unfunded Accrued Liabilities. If the various private bond rating agencies undertook a careful analysis of the Retirement Fund's liabilities, it becomes evident that the credit rating of the State of Rhode Island could be adversely affected.

The ultimate result would be that the State would be forced to pay higher interest rates on all future bonded indebtedness. This evaluation is, in the Commission's judgment, not supposition, but inevitable fact. If responsible, concerted efforts are not taken immediately, a severe financial impact is imminent.

RECOMMENDATION #1

Payroll Basis

Prior to fiscal year 1966 the State's portion of the Employer's contribution to the Employees' Retirement System of the State of Rhode Island was made on a one-year-old payroll basis. Beginning in fiscal year 1966, in order to have a firm figure to include in the State budget for retirement expenses, the State adopted a procedure by which they used a two-year old payroll and modified the rate of contribution as determined by the actuary by 111 percent. For example, the actuary stated that a 5 percent contribution of current payroll would be proper. Using the 111 percent figure, the State put in 5.55 percent of a two-year-old payroll. Commencing in fiscal year 1972, the actuary recommended that 6.5 percent of payroll be the State's contribution. Rather than initiate a large jump in contributions to the Retirement Fund in one fiscal year, the State elected to "phase-in" the 6.5 percent by contributing 5.88 percent in fiscal year 1973; 6.21 percent in fiscal year 1974; 6.54 percent in fiscal year 1975; 6.87 percent in fiscal year 1976; and 7.20 percent in fiscal year 1977.

However, analyzing the data developed by Robert E. Borah & Associates (see appendix D) we find that in fiscal year 1976, rather than contributing 6.87 percent, amounting to 10.0 million the State is actually contributing 4.2 percent amounting to 6.1 million of an estimated current payroll for state employees. This has happened because the growth of payroll has exceeded the acturial assumptions for the increase growth of payroll. (See Appendix G.) Therefore, in order to provide a proper level of funding, it is imperative that the State make their contributions to the Employees' Retirement System of the State of Rhode Island on a <u>percentage of actual current payroll.</u>

RECOMMENDATION #2

Funding Of Future Benefits

Much discussion has been generated on the basis of the Governor's "Task Force Report on Retirement" (1974), as to the effect of the benefit package granted in 1970 to State Employees and Teachers. Mr. A. A. Weinberg, the State Retirement Board's actuary, estimated the cost of this benefit package to be in the vicinity of $100 million. The recommendations for these increases came from a Task Force created in 1969 comprised of State officials, Union officials, members of the Legislature, and others. The following is a quote from the 1969 Task Force report, page 22: "The ten-year projection for determining contribution rates was reduced to five years in 1967. Accordingly, the contribution rates are scheduled to be re-examined prior to July 1, 1972, at which time all changes to the system since July 1, 1967, including the enactment of any of the changes recommended in this report will be taken into account in the determination of the contribution rates to be made effective for the five-year projection period to follow." The benefit package was adopted but no additional Employee contributions were forthcoming.

Therefore, the Commission highly recommends that any future increase in benefits must be fully funded by contributions from the Employees and/or the Employer at the time benefits are increased. All parties must understand that the Employee benefits granted in the past have had a tremendous effect upon the "unfunded accrued liability" of the Retirement System. Therefore, care must be taken to insure that all future benefits are accompanied by a sound fiscal plan.

RECOMMENDATION #3

Employee Contributions

The Commission, having analyzed the data available from the Employees' Retirement System of the State of Rhode Island and also the data generated by the Robert E. Borah & Associates report, has concluded that in order to insure a sound financial structure for the Retirement System, it is necessary that Employee contributions be increased commencing July 1, 1976, by 1.5 percent for both State Employees and Teachers.

RECOMMENDATION #4

Employer Contributions

The Commission asked Robert E. Borah & Associates to evaluate the proposals made by the State Budget Office in a special paper (Fiscal 1976--Considerations on Funding of State Employees' Retirement System) and Mr. A.A. Weinberg's additional funding recommendations contained in his report of fiscal year 1974. We asked that Borah Associates use Mr. Weinberg's actuarial assumptions for both these proposals and also use a set of assumptions that they (Borah) deemed to be advisable.

The Commission carefully studied the effects of these reports on the basis of both sets of assumptions and determined that, in view of the economic conditions presently prevailing, the more realistic assumptions of 5 percent salary increments and 6 percent interest rather than 3 1/2% and 5% respectively would be in our judgment more appropriate.

Therefore, the Commission has concluded that the best proposal is the State Budget Office's paper using Robert E. Borah & Associates' assumptions for the first five years starting in fiscal year 1977. Beginning in fiscal year 1982, the State should adopt a level percentage of pay to meet effectively the cost of benefits currently accruing and also to amortize the "unfunded accrued liability" over a period of 40 years.

RECOMMENDATION #5

Benefit Increases

The Commission, having carefully analyzed the data used to compile the Robert E. Borah & Associates report, has concluded that the data presently available, especially that pertaining to Teachers, is not as detailed as would be desirable if sound financial projections are to be made. Consequently, the Commission recommends that benefit increases over the next five years should be curtailed so that this data may be brought up to date and a new actuarial evaluation be made on firm base data.

RECOMMENDATION # 6

Actuarial Assistance: How and Why Arrived At

The Commission determined early in its deliberations that much of the data presented was of such a highly technical nature that professional expertise was necessary and desirable. We felt as though we needed an actuary who was completely independent and who had never previously had contact with the Employees' Retirement System of the State of Rhode Island. Therefore, in order to get a complete and independent overview of the Retirement System, we embarked on a search for an actuary. One of the criteria we felt was mandatory was to contract with an actuary who would be readily available for consultation with the Commission.

Robert E. Borah & Associates, Inc., were highly recommended to us by sources from educational institutions and accounting societies within the State. Robert E. Borah & Associates are actuaries, consultants, and administrators of Employee benefit plans. Our work was undertaken personally by Mr. Robert I. Bostian, F.S.A., Vice-President of Robert E. Borah & Associates, Inc.

The Commission supplied Mr. Bostian with the pertinent data necessary for his actuarial projections. This data was derived directly from a payroll magnetic tape of a pay period ending August 30, 1975.

APPENDIX A

	NET PAYROLL STATE EMPLOYEES	UNFUNDED ACCRUED LIABILITY	RATIO U.A.L. TO NET PAYROLL
1965	54,802,220	100,379,051	1.83 to 1
1966	56,069,760	108,201,337	1.93 to 1
1967	66,625,900	117,015,732	1.76 to 1
1968	69,508,160	124,645,991	1.79 to 1
1969	69,244,820	128,334,000	1.85 to 1
1970	81,109,740	138,583,000	1.71 to 1
1971	96,299,040	172,363,000	1.79 to 1
1972	100,155,240	292,172,631	2.92 to 1
1973	106,643,120	352,015,427	3.30 to 1
1974	123,436,540	408,808,539	3.31 to 1

APPENDIX B

	ASSETS	TEACHERS & STATE EMPLOYEES TOTAL UNFUNDED ACCRUED LIABILITY	RATIO U.A.L. TO ASSETS
1965	74,757,006	100,379,051	1.34 to 1
1966	83,118,675	108,201,337	1.30 to 1
1967	93,440,134	117,015,732	1.25 to 1
1968	104,237,811	124,645,991	1.20 to 1
1969	116,817,706	128,334,000	1.10 to 1
1970	131,539,662	138,583,000	1.05 to 1
1971	146,606,004	172,363,000	1.18 to 1
1972	162,895,394	292,172,631	1.79 to 1
1973	180,221,987	352,015,427	1.95 to 1
1974	199,762,510	408,808,539	2.05 to 1

APPENDIX C

	GENERAL LONG TERM DEBT PAYABLE	UNFUNDED ACCRUED LIABILITY	UAL RATIO TO DEBT PAYABLE
1965	157,220,000	100,379,051	.64 to 1
1966	178,038,000	108,201,337	.61 to 1
1967	185,703,000	117,015,732	.63 to 1
1968	217,893,000	124,645,991	.57 to 1
1969	245,723,000	128,334,000	.52 to 1
1970	253,923,000	138,583,000	.55 to 1
1971	265,996,000	172,363,000	.65 to 1
1972	265,381,000	292,172,631	1.10 to 1
1973	262,006,000	352,015,427	1.34 to 1
1974	245,401,000	408,808,539	1.67 to 1

APPENDIX D

STATE EMPLOYEES
Budget Office Proposal
Calculation Method II
(Millions)

(1) Fiscal Year	(2) Unf. Liab. Begin. of Yr.	(3) Interest at 6% .06X(2)	(4) Approp. for Interest %		(5) Increase Unf. Liab. (3)-(4)	(6) Current Payroll @5%	(7) Current Cost @11.6% .116 X (6)	(8) Approp. for Current Cost %		(9) Increase Unf. Liab. (7)-(8)	(10) Interest on (7)-(8) .06 X (9)	(11) Total Inc. in Unf. Liab. (5)+(9)+(10)	(12) Employer Cost (4)+(8)	(13) (12) as % of Payroll (12)/(6)
1976	275.1	16.5		0	16.5	146.1	16.9		6.1	10.8	0.6	27.9	6.1	4.2
77	303.0	18.2	10	1.8	16.4	153.4	17.8	65	11.6	6.2	0.4	23.0	13.4	8.7
78	326.0	19.6	20	3.9	15.7	161.1	18.7	70	13.1	5.6	0.3	21.6	17.0	10.6
79	347.6	20.9	30	6.3	14.6	169.1	19.6	75	14.7	4.9	0.3	19.8	21.0	12.4
80	367.4	22.0	40	8.8	13.2	177.6	20.6	80	16.5	4.1	0.2	17.5	25.3	14.2
81	384.9	23.1	50	11.5	11.6	186.5	21.6	85	18.4	3.2	0.2	15.0	29.9	16.0
82	399.9	24.0	60	14.4	9.6	195.8	22.7	90	20.4	2.3	0.1	12.0	34.8	17.8
83	411.9	24.7	70	17.3	7.4	205.6	23.8	95	22.6	1.2	0.1	8.7	39.9	19.4
84	420.6	25.2	80	20.2	5.0	215.8	25.0	100	25.0	0.0	0.0	5.0	45.2	20.9
85	425.6	25.5	90	23.0	2.5	226.6	26.3	105	27.6	(1.3)	(0.1)	1.1	50.6	22.3
86	426.7	25.6	100	25.6	0	238.0	27.6	110	30.4	(2.8)	(0.2)	(3.0)	56.0	23.5
87	423.7			25.4		249.9	29.0	115	33.4	(4.4)	(0.3)	(4.7)	58.8	23.5
88	419.0			25.1		262.4	30.4	120	36.5	(6.1)	(0.4)	(6.5)	61.6	23.5
89	412.5			24.8		275.5	32.0	125	40.0	(8.0)	(0.5)	(8.5)	64.8	23.5
90	404.0			24.2		289.3	33.6		42.0	(8.4)	(0.5)	(8.9)	66.2	22.9
91	395.1			23.7		303.7	35.2		44.0	(8.8)	(0.5)	(9.3)	67.7	22.3
92	385.8			23.1		318.9	37.0		46.3	(9.3)	(0.6)	(9.9)	69.4	21.8
93	375.9			22.6		334.9	38.8		48.5	(9.7)	(0.6)	(10.3)	71.1	21.2
94	365.6			21.9		351.6	40.8		51.0	(10.2)	(0.6)	(10.8)	72.9	20.7
95	354.8			21.3		369.2	42.8		53.5	(10.7)	(0.6)	(11.3)	74.8	20.3
96	343.5			20.6		387.6	45.0		56.3	(11.3)	(0.7)	(12.0)	76.9	19.8
97	331.5			19.9		407.0	47.2		59.0	(11.8)	(0.7)	(12.5)	78.9	19.4
98	319.0			19.1		427.4	49.6		62.0	(12.4)	(0.7)	(13.1)	81.1	19.0
99	305.9			18.4		448.7	52.0		65.0	(13.0)	(0.8)	(13.8)	83.4	18.6
2000	292.1			17.5		471.2	54.7		68.4	(13.7)	(0.8)	(14.5)	85.9	18.2
01	277.6			16.7		494.7	57.4		71.8	(14.4)	(0.9)	(15.3)	88.5	17.9
02	262.3			15.7		519.5	60.3		75.4	(15.1)	(0.9)	(16.0)	91.1	17.5
03	246.3			14.8		545.4	63.3		79.1	(15.8)	(0.9)	(16.7)	93.9	17.2
04	229.6			13.8		572.7	66.4		83.0	(16.6)	(1.0)	(17.6)	96.8	16.9
05	212.0			12.7		601.3	69.8		87.3	(17.5)	(1.0)	(18.5)	100.0	16.6
06	193.5													

APPENDIX E

TEACHERS

Budget Office Proposal

Calculation Method II

(Millions)

(1) Fiscal Year	(2) Unf. Liab. Begin. of Yr.	(3) Interest at 6% .06X(2)	(4) Approp. for Interest %		(5) Increase Unf. Liab. (3)-(4)	(6) Current Payroll @5%	(7) Current Cost @11.2% .112X(6)	(8) Approp. for Current Cost %		(9) Increase Unf. Liab. (7)-(8)	(10) Interest on (7)-(8) .06X(9)	(11) Total Inc. in Unf. Liab. (5)+(9)+(10)	(12) Employer Cost (4)+(8)	(13) (12) as % of Pay (12)/(6)
1976	414.1	24.8		0	24.8	142.7	16.0		12.6	3.4	0.2	28.4	12.6	8.8
77	442.5	26.6	10	2.7	23.9	149.8	16.8	65	10.9	5.9	0.4	30.2	13.6	9.1
78	472.7	28.4	20	5.7	22.7	157.3	17.6	70	12.3	5.3	0.3	28.3	18.0	11.4
79	501.0	30.1	30	9.0	21.1	165.2	18.5	75	13.9	4.6	0.3	26.0	22.9	13.9
80	527.0	31.6	40	12.6	19.0	173.5	19.4	80	15.5	4.0	0.2	23.2	28.1	16.2
81	550.2	33.0	50	16.5	16.5	182.2	20.4	85	17.3	3.1	0.2	19.8	33.8	18.6
82	570.0	34.2	60	20.5	13.7	191.3	21.4	90	19.3	2.1	0.1	15.9	39.8	20.8
83	585.9	35.2	70	24.6	10.6	200.9	22.5	95	21.4	1.1	0.1	11.8	46.0	22.9
84	597.7	35.9	80	28.7	7.2	210.9	23.6	100	23.6	0	0	7.2	52.3	24.8
85	604.9	36.3	90	32.7	3.6	221.4	24.8	105	26.0	(1.2)	(0.1)	2.3	58.7	26.5
86	607.2	36.4	100	36.4	0	232.5	26.0	110	28.6	(2.9)	(0.2)	(3.1)	65.0	28.0
87	604.1			36.2		244.1	27.3	115	31.4	(4.1)	(0.2)	(4.3)	67.6	27.7
88	599.8			36.0		256.3	28.7	120	34.4	(5.7)	(0.3)	(6.0)	70.4	27.5
89	593.8			35.6		269.1	30.1	125	37.6	(7.5)	(0.5)	(8.0)	73.2	27.2
90	585.8			35.1		282.6	31.7		39.6	(8.2)	(0.5)	(8.7)	74.7	26.4
91	577.1			34.6		296.7	33.2		41.5	(8.3)	(0.5)	(8.8)	76.1	25.6
92	568.3			34.1		311.5	34.9		43.6	(8.7)	(0.5)	(9.2)	77.7	24.9
93	559.1			33.5		327.1	36.6		45.8	(9.2)	(0.6)	(9.8)	79.3	24.2
94	549.3			33.0		343.5	38.5		48.1	(9.6)	(0.6)	(10.2)	81.1	23.6
95	539.1			32.3		360.7	40.4		50.5	(10.1)	(0.6)	(10.7)	82.8	23.0
96	528.4			31.7		378.7	42.4		53.0	(10.6)	(0.6)	(11.2)	84.7	22.4
97	517.2			31.0		397.6	44.5		55.6	(11.1)	(0.7)	(11.8)	86.6	21.8
98	505.4			30.3		417.5	46.8		58.5	(11.7)	(0.7)	(12.4)	88.8	21.3
99	493.0			29.6		438.4	49.1		61.4	(12.3)	(0.7)	(13.0)	91.0	20.8
2000	480.0			28.8		460.3	51.6		64.5	(12.9)	(0.8)	(13.7)	93.3	20.3
01	466.3			28.0		483.3	54.1		67.6	(13.5)	(0.8)	(14.3)	95.6	19.8
02	452.0			27.1		507.5	56.8		71.0	(14.2)	(0.9)	(15.1)	98.1	19.3
03	436.9			26.2		532.9	59.7		74.6	(14.9)	(0.9)	(15.8)	100.8	18.9
04	421.1			25.3		559.5	62.7		78.4	(16.7)	(1.0)	(17.7)	103.7	18.5
05	403.4			24.2		587.5	65.8		82.3	(16.5)	(1.0)	(17.5)	106.5	18.1

APPENDIX F

Employer Contribution as Percent of Payroll Required
to Freeze Unfunded Liability at Current Level, or
Amortize Unfunded Liability in Level Dollar Amounts
Over 40 Years, or Amortize Unfunded Liability as Level
Percent of Payroll Over 40 Years
Beginning July 1, 1981
Assuming Budget Office Proposal Adopted for Fiscal Years 1977-81

	Employer Contribution to Freeze Unfunded Liability	Employer Contribution to Amortize Unfunded Liability Over 40 Years	
		Level Dollar Amount	Level % of Pay
	(%)	(%)	(%)
State Employees			
Calculation Method I	17.1	17.8	15.0
Calculation Method II	23.9	24.4	17.7
Calculation Method III	20.7	21.8	17.2
Teachers			
Calculation Method I	27.5	29.0	22.6
Calculation Method II	29.1	29.9	20.1

*APPENDIX G

COMPARISON OF INCREASE GROWTH IN STATE EMPLOYEES PAYROLL AND PERCENTAGE OF STATE CONTRIBUTION ON THE BASIS OF THE ACTUAL CURRENT PAYROLL

FY	STATE EMPLOYEES CONTRIBUTIONS	ANNUAL PAYROLL STATE EMPLOYEE MEMBERS OF RETIREMENT SYSTEM	% OF PAYROLL INCREASE PER YR.	A.A. WEINBERG SALARY INCREMENTS ASSUMPTION	GENERAL REVENUE TO RETIREMENT FUND FOR STATE EMP. MEMBERS	PERCENTAGE PAID OF ACTUAL CURRENT PAYROLL
75	7,017,683	140,353,660	13.7		5,441,579	3.9
74	6,171,827	123,436,540	15.7	3 1/2%	4,561,729	3.7
73	5,332,156	106,643,120	6.5	4 1/2%	3,753.007	3.5
72	5,007,762	100,155,240	4.0	4%	3,436,097	3.4
71	4,814,952	96,299,040	18.7	3 1/2%	3,033,701	3.2
70	4,055,487	81,109,740	17.1	2 %	3,183,182	3.9
69	3,462,241	69,244,820	(.04)	2 %	2,697,917	3.9
68	3,475,408	69,508,160	4.3	2 %	2,965,232	4.3
67	3,331,295	66,625,900	18.8	2%	2,741,612	4.1
66	2,803,488	56,069,760	2.3	2%	2,386,604	4.3
65	2,740,111	54,802,220		2%	2,291,082	4.2